
Department of Transportation, Airports,
State of Hawaii

(an enterprise fund of the State of Hawaii)

Federal Awards Supplemental Information

June 30, 2023

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Auditor
State of Hawaii

We have audited the financial statements of the Department of Transportation, Airports, State of Hawaii (the "Airports"), an enterprise fund of the State of Hawaii, as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the Airports' basic financial statements. We issued our report thereon dated December 22, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to December 22, 2023.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

February 16, 2024

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Auditor
State of Hawaii

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Department of Transportation, Airports, State of Hawaii (the "Airports"), an enterprise fund of the State of Hawaii, as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the Airports' basic financial statements, and have issued our report thereon dated December 22, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airports' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airports' internal control. Accordingly, we do not express an opinion on the effectiveness of the Airports' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Airports' financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2023-001, that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airports' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Airports' Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Airports' response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Airports' response was not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

To Management and the Auditor
State of Hawaii

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airports' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airports' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

December 22, 2023

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required
by the Uniform Guidance

Independent Auditor's Report

To the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Department of Transportation, Airports, State of Hawaii's (the "Airports") compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Airports' major federal program for the year ended June 30, 2023. The Airports' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Airports complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Airports and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Airports' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Airports' federal program.

To the Auditor
State of Hawaii

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Airports' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Airports' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Airports' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Airports' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Airports' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention of those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2023-002 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Airports' response to the internal control over compliance finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Airports' response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on it.

To the Auditor
State of Hawaii

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

February 16, 2024

Department of Transportation, Airports, State of Hawaii

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

| Federal Agency/Pass-through Agency/Program Title | Assistance Listing Number | Pass-through Entity Identifying Number | Provided to Subrecipients | Federal Expenditures |
|--|---------------------------|--|---------------------------|-----------------------|
| U.S. Department of Transportation - Federal Aviation Administration: | | | | |
| Airport Improvement Program | 20.106 | | \$ - | \$ 74,126,856 |
| COVID-19 - Airport Improvement Program | 20.106 | | - | 46,887,548 |
| Total | | | \$ - | \$ 121,014,404 |

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the Department of Transportation, Airports, State of Hawaii (the “Airports”) under programs of the federal government for the year ended June 30, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the Airports, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Airports.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement and frequently asked questions, as outlined in the 2020 Compliance Supplement Addendum.

The Airports have elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

Schedule of Findings and Questioned Costs

Department of Transportation, Airports, State of Hawaii

Schedule of Findings and Questioned Costs

Year Ended June 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X None reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None reported

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? X Yes No

Identification of major programs:

| ALN | Name of Federal Program or Cluster | Opinion |
|--------|------------------------------------|------------|
| 20.106 | Airport Improvement Program | Unmodified |

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? Yes X No

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2023

Section II - Financial Statement Audit Findings

| Reference Number | Finding |
|------------------|--|
| 2023-001 | <p>Finding Type - Material weakness</p> <p>Criteria - The general ledger and underlying financial records should be reconciled and closed in a timely manner. Year-end journal entries should be recorded in accordance with generally accepted accounting principles (GAAP) prior to the start of the audit.</p> <p>Condition - During our audit, we identified various accounts that required reconciliation and journal entries that were required to be posted for the Airports' financial reporting to be compliant with generally accepted accounting principles.</p> <p>Context - The journal entries included the adjustments required for annual year-end reconciliations related to accounts payable, accrued liabilities, cash balances held with trustees, revenue, accrued interest, interest expense, employee compensation and pension-related balances, and net position balances.</p> <p>Cause - Although the Airports have processes and controls in place surrounding the year-end close and financial reporting function, those processes and controls did not ensure that the aforementioned activity was correctly reported at June 30, 2023 and that all activity that needed to be accurately reflected in the financial statements was reviewed, reconciled, and corrected or recorded timely.</p> <p>Effect - If accounts are not reconciled throughout the year, the Airports' management and the State of Hawaii are not provided with accurate financial information to make decisions during the fiscal year, and material inaccurate financial reporting could result.</p> <p>Recommendation - The Airports should have processes and controls in place to ensure proper recording and reconciling of general ledger activity throughout the year, as well as identification and recording of all year-end closing entries in accordance with generally accepted accounting principles prior to the commencement of the audit.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Airports are in the process of reviewing and updating year-end procedures to ensure all transactions are properly recorded and reported prior to the start of the annual audit.</p> |

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2023

Section III - Federal Program Audit Findings

| Reference Number | Finding |
|------------------|--|
| 2023-002 | <p>Assistance Listing Number, Federal Agency, and Program Name - 20.106 Federal Aviation Administration - Airport Improvement Program</p> <p>Federal Award Identification Number and Year - N/A</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material weakness</p> <p>Repeat Finding - No</p> <p>Criteria - 29 CFR Sections 5.5 and 5.6 establish certain requirements for wage rate requirements. This includes a requirement for the contractor or subcontractor to submit to the nonfederal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls). The Airports are responsible for monitoring compliance by any third-party contractor to ensure compliance requirements are being met.</p> <p>Condition - During the audit, it was determined that there is no control function in place by the Airports staff to ensure that wage rate compliance with weekly certified payrolls is occurring.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - The Airports have hired a third-party consultant to perform compliance work regarding obtaining weekly certified payrolls from contractors, and subcontractors as required under the wage rate requirements. The third party has access to upload the certified payrolls to a shared folder with the Airports. The Airports do not have internal controls to monitor or review the work of the third-party consultant. Without this review, the Airports may not be able to detect if a noncompliance by the contractors or subcontractors has occurred. During our testing, we did not note any noncompliance matters related to the wages that were paid for a sample of expenditures that were tested.</p> <p>Cause and Effect - Due to the Airports' lack of monitoring or review of the certified payrolls obtained by the third-party consultant, they did not maintain the proper internal controls to ensure compliance with the wage rate requirement.</p> <p>Recommendation - Internal controls should be implemented and formalized to ensure proper monitoring and reviews of the information provided by the third party are occurring in regards to wage rate requirements.</p> <p>Views of Responsible Officials and Corrective Action Plan - Certified payroll registers that are uploaded in the Airports' web-based databases will be checked monthly by HDOT staff to detect and correct matters related to wage rate requirements. Noncompliance notices will be issued to the third-party consultants when missing information or errors are identified.</p> |